



Final Transcript

TERRAFINA: Terrafina Conference

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SPEAKERS

Alberto Chretin – Chief Executive Officer, Terrafina
Alfonso Munk – Chief Investment Officer, PREI-Latin America

PRESENTATION

Moderator Good afternoon, ladies and gentlemen. Thank you for standing by, and welcome to the Terrafina Conference Call. During today's presentation all parties will be in listen-only mode. Following the presentation there will be a question and answer session, and instructions will be given at that time. (Operator instructions.) As a reminder, this call is being recorded today, May 23, 2013.

I would now like to turn the call over to Alberto Chretin, CEO of Terrafina. Please go ahead, sir.

A. Chretin

Thank you very much. Good afternoon, everyone and thank you very much for your interest. I'm going to tell you today about Terrafina's plan to acquire the industrial real estate portfolio of the joint venture between American Industries and Kimco. The acquisition is comprised of 87 industrial properties totaling 11 million square feet of manufacturing ... area, and the use of these facilities is mainly for manufacturing use. The purchase price of the transaction is \$600 million, and the acquisition will be funded mainly through two elements; one, Terrafina's existing secured credit facility; and second, the assumption and refinancing of the in place secured debt of the acquired portfolio.

The forward 12 months ... cap rate on the purchase price is 8.7, and the price per square foot is a very attractive \$54, again per square foot. The financial impact of this unique opportunity will result in an interim net debt to EBITDA increase to 8 and a loan-to-value increase to 68%. The net debt to enterprise value is going to be 51%. Nonetheless, Terrafina will maintain its long term balance sheet target ratio of between 35% and 40% of loan-to-value and will assess all funding alternatives to achieve this goal as soon as practical. This ... is expected to be accretive to 2013 and 2014 ... in The timing for the closing is expected to happen in the

third quarter of 2013, and this transaction is also contingent upon the approval of Terrafina's shareholders and our customer

Let me tell you a little bit now about the This acquisition positions Terrafina as the largest owner of industrial ... in Mexico by GLA with an enhanced portfolio in scale, diversification, occupancy, and This acquisition also is very much aligned with the strategy to position Terrafina as the growth in consolidation industry for Mexico. The ... execution of the ... execution strategy establishes credibility on the synergy between the internal management of Terrafina and Prudential Real Estate Investors as our external advisor. This has been a complex negotiation with American Industries and Kimco, and is a result of deploying and using all of the leverage that we have from our external advisor, as Prudential has a long term relationship with Kimco as well as a relationship that we have with the internal management with American Industries. Also, this is going to allow Terrafina to capitalize on the ... evaluation arbitrage.

In terms of scale, our current portfolio in Terrafina is 19.8 million square feet, and we're going to increase that by 56% to a total of close to 31 million square feet. And as I said before, we'll become the largest

industrial portfolio in Mexico. In addition to that, we're going to capitalize on economies of scale, as we'll be able to spread cost among a more significant, larger platform. This acquisition also is going to substantially enhance the portfolio parameters in terms of occupancy, as it's going to be increased from 88% to 90%. And also in terms of ... diversification, our ... rent or revenue is going to be reduced from 35% to 32%.

I will expand a little bit more later on the fantastic increase that we have on the industry diversification that we have because of this acquisition. I'll tell you now that this acquisition also extends the weighted average lease term from 3.2 to 3.4 years. I'm going to tell you also that the commitment that we made during the road show ... secure strategic, financially accretive, and meaningful acquisitions that enhance the scale and diversification for the Terrafina portfolio, and also how we were going to act as the consolidator of the industrial real estate market in Mexico and capitalize also on the differentiated approach that we have through relationship with the sellers, in which we allow the sellers to continue with their business plans and also allow them to maintain the relationship with a tenant that they value very much.

Also, we said that we view northern Mexico as a market of opportunity, in that in these portfolios, I will mention it in a couple of minutes, has very much a weighted average towards the north, and we are capitalizing on that opportunity.

Prior to the acquisition Terrafina was the third largest industrial real estate portfolio in the country, and with the addition of the American Industries and Kimco portfolio of about 11 million square feet, we're going to be positioned as the number one owner of industrial real estate facilities in Mexico. In addition to that, our average rent is going to increase from 467 that we have at this point, to 484.

I think it's important to note that the portfolio of American Industries and Kimco is a portfolio that is very heavily weighted on manufacturing, and the tenants have a history of success in terms of the operation. And they're meeting the goals in terms of productivity, quality, and innovation, and there is proven record renewals, so we feel very comfortable that the rents that we have at this point are going to, either there's not going to be any negative spreads on this rent and if anything it's going to be a growth on rents for the overall portfolio.

In terms of geographic diversification, prior to the acquisition Terrafina had an exposure to the border of 18%, and 20% to the rest of the northern markets. The American Industries and Kimco portfolio is very much positioned in northern Mexico, especially in the cities of Chihuahua and the cities of ..., with a 57% exposure to the north and 32% to the border.

After the acquisition we are going to increase the exposure of Terrafina from 18% to 24% in the border, and in the north from 20% to 34%. But if we look at the geographic diversification after the acquisition and compare that to the Mexican market, Terrafina ... acquisition is going to maintain a dominant position in the central market of Mexico, which is the one where we have the highest occupancy rate, the best rents, and the best possibility for a rent increase, so we continue to maintain a dominant position in that market, and also we have a lessened market exposure to the overall north markets.

In terms of the tenant composition, the tenant composition of the American Industries and Kimco portfolio is similar to the manufacturing portion of the Terrafina portfolio, but with an important addition of one new sector in our portfolio, which is the aerospace sector. The aerospace sector is one industry that has come to Mexico, and let me just say that

American Industries and its president, Luis Lara, they have been very proactive and very successful in the promotion of attraction of investment to the facilities, especially in the area of aerospace, and we are going to enjoy that added sector in our portfolio. Not only are they well positioned themselves on the OEMs and ... but also they have a very important base of suppliers to the aerospace industry like Weber, Zodiac, and ..., and others like that. Post acquisition we're going to have a tenant composition that is second to none in terms of we have first-class companies in logistics, in aviation, automotive, consumer products, etc. So we continue to enjoy a very diverse and very positive tenant composition.

One very important evidence of the performance of a portfolio is the lease maturity schedule, in Terrafina, pre-acquisition we had about 26% of our lease contracts were expiring during 2013. We have made substantial progress to renew those leases, but this is the composition prior to the acquisition, ... 26%, 13%, and 12% in 2014 and 2015. The American Industries and Kimco portfolio has no lease maturity in 2013, but has about a very steady 18% during 2014 and 2015. And post acquisition the composition of the lease maturity is very stable, with 18% for 2013, 15% for 2014, and 15% for 2015.

Again, as I said before, these acquisitions position Terrafina as the number one owner of industrial real estate properties. The acquisition is accretive to shareholders. The acquisition is perfectly aligned with our growth plan, but in addition to the size of the transaction and the immediate execution, adds credibility to the management capabilities of Terrafina and is also evidence of Prudential Real Estate Investors commitment to source accretive acquisition opportunities. This acquisition, again, is a result of a substantial enhancement of the portfolio in terms of occupancy, tenant diversification, the incorporation of the aviation sector, and the lease In this acquisition we are strictly adhering to our ... in terms of growth through this acquisition strategy.

Now, operator, I would like to open it now to take some questions, please.

Moderator Thank you very much. (Operator instructions.) And our first question does come from the line of Roberto Browne with Goldman Sachs.

J. Mullen Hello, this is Jason Mullen calling from Goldman Sachs. Hello, everyone. Alberto, you mentioned the 12 month forward cap rate estimate of about 8.7%, so you have provided a good sense of the potential increase in NOI.

Can you speak about transaction expenses and perhaps tenant improvement costs and the impact for adjusted FFO and for dividends?

A. Chretin Yes, we are in the process of evaluating all of those ... and we'll be very happy to provide these to get the schedule ready for you on this issue.

J. Mullen Is there any kind of color you can give us in terms of the costs that are associated with the transaction?

A. Chretin Yes.

J. Mullen Was there a broker fee? Was there any kind of fees that we should be aware of? We obviously understand the financing costs and such, but any other color would be much appreciated.

A. Chretin Certainly. There are no broker fees on this transaction. The only transaction expenses that are going to be incurred in this are going to be the transfer title taxes and the value-added taxes and other taxes that are customary for this type of transaction. In addition to that, we are refinancing the credit facility or the credit portfolio, and there's going to

be some costs to do that, but those are the only elements of cost in the transaction.

A. Munk Jason, this is Alfonso Munk from Prudential. To complement the answer from Alberto, there are three levels of expenses. He mentioned one of the traditional expenses associated with ...; the second one is a transfer tax that ... by the buyer of properties in Mexico; and the third one is the financial cost for maturing the debt, etc. So you get guidance on the number, we're talking about roughly or in the tune of 5% of the purchase price.

J. Mullen That's helpful. And maybe just a follow up on the outlook for future acquisitions and growth, this transaction is quite large in size, how do you think about the opportunities going forward? It seems as if you've found a larger than expected, at least larger than we expected, acquisition so soon. What does this mean for the pipeline that you see in the market?

A. Chretin This is the best portfolio available within the pipeline that we have identified, and we have identified also additional portfolio acquisition opportunities and we're certainly going to pursue that. As you can see, we are utilizing all of our credit facilities for this very large acquisition because we feel that this is a unique opportunity and that we made the

election to proceed with this large acquisition. But as soon as practical, we're going to proceed with an alternative to other credit facilities in order to de-lever the portfolio and go back to a growth mode after this acquisition.

J. Mullen Thank you very much.

Moderator Our next question does come from the line of Dan McGoey with Citigroup.

D. McGoey Good morning, or good afternoon, gentlemen. ...quickly mentioned some numbers on the occupancy, and I think you said the occupancy pro forma would be about 90%, up from 88%, it looks like an increase in the Terrafina occupancy rate from the close of the first quarter until now, and I wonder if you could just specify exactly what is the current occupancy on the Kimco portfolio.

A. Chretin The current occupancy on the Kimco portfolio is about 92%.

D. McGoey Okay, thanks. And the other question is regarding leverage. I would assume this takes you to a much higher leverage ratio than, I guess, your

target. How comfortable are you running that leverage ratio? Should we expect that leverage ratio to come down with cash flow generated from the portfolio, or with a capital increase?

A. Chretin I think that we're looking at ... to de-lever the portfolio, and certainly we will have to go to market or look for options to de-lever the portfolio.

(Speaking simultaneously)

M Dan, regarding the first point of your question, we do feel comfortable ... given that the monetary covenants are still complied with in a very wide margin. While we would go back most likely to every month to de-lever, on an interim basis we feel very comfortable given that the monetary covenants and the coverage is still wide.

D. McGoey Okay, thank you. Congratulations on the acquisition.

Moderator And our next question does come from the line of Jeremy Kaham with Dow Street.

J. Kaham Hi, gentlemen. If you do go back to the equity markets can you just give us some sense of the size that you would be looking to raise? And then also if you can just comment on the pipeline, how much dry powder do you think you want to go execute against the pipeline you currently have? Thank you.

A. Chretien Thank you. Yes, if we are to go to the market certainly we're going to see that we ... de-leverage the portfolio, and also to look for additional ... to continue with our growth strategy. And that is going to be perhaps in the neighborhood of 500 million.

J. Kaham ..., so you want to raise 500 million more equity in addition to the de-leveraging, or total amount of capital?

A. Chretien No, and I'm sorry, let me clarify this. First of all, we're going to fund this acquisition through the current existing credit facility that we have, and by the assumption of the financing that is on the And as a result of that, we will end up with a loan-to-value of close to 68%, and we already negotiated with a ... that this is going to be a very comfortable loan-to-value at this point. Certainly to continue with our growth strategy that we continue to see a lot of opportunities, we are analyzing all our options and

we're probably going to go to the market also and look for additional capital to de-lever the portfolio in order to be in a position, again, to go back and capitalize on the other opportunities that we see in the pipeline ...

J. Kaham Understood, thank you very much.

Moderator (Operator instructions.) And at this time I'm not showing any further questions.

A. Chretin Well, thank you very much, everyone, for your interest. And again, this information is going to be available on the Web site of Terrafina, and again this will be a ... service available for the next 30 days. Thank you all very much.

Moderator Thank you. Ladies and gentlemen, that will conclude the conference for today. If you would like to listen to a replay of this conference you may do so by dialing either 1-800-475-6701, or 320-365-3844. You will need to enter the access code of 294485.

Again, we do thank you for your participation on today's call. You may now disconnect your lines at this time.